

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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March 4, 2010

Ms. Patricia Taylor
Executive Director
Madera County Transportation Commission
2001 Howard Road, Suite 201
Madera, CA 93637

Re: Madera County Transportation Commission
Audit of Indirect Cost Allocation Plan FY 2008/09
File Number: P1591-0009

Dear Ms. Taylor:

We have audited the Madera County Transportation Commission's (MCTC) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with Title 2 of the Code of Federal Regulations (CFR) Part 225 and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The MCTC management is responsible for the fair presentation of the ICAP. The MCTC proposed an indirect cost rate of 77.51 percent of total direct salaries and wages, plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MCTC. Therefore, we did not audit and are not expressing an opinion on MCTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MCTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting principles prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of MCTC in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of the Overall Work Program (OWP), a review of MCTC's audited financial report for the FY ended June 30, 2007, and inquiries of MCTC personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of March 27, 2009. Financial management changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration MCTC's response dated August 25, 2009, to our draft report dated July 6, 2009. Our findings and recommendations, MCTC's response and our analysis of the response are detailed below. See Attachment II for a copy of MCTC's response.

AUDIT RESULTS

Based on audit work performed, MCTC's ICAP for the FY ended June 30, 2009, is presented, except as noted below, in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 77.51 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

Given the results of our audit, it is our recommendation that MCTC continue to be classified as a "High Risk" recipient of federal and State transportation funds in accordance with the provisions of 49 CFR 18.12. The "High Risk" designation should remain in effect until the MCTC has demonstrated compliance with contract provisions and State and federal regulations for a period of not less than one year from the date of this report. We further recommend that the Department continue increased oversight and monitoring of all transportation funds provided to MCTC.

The MCTC requested a provisional indirect cost rate of 37.43 percent on February 19, 2009, for FY 2008/09. Audits and Investigations, through discussion with the Division of Transportation Planning (DOTP), approved the provisional rate on February 26, 2009. As agreed to in the provisional rate request, within 30 days of issuance of this audit report, the MCTC must reconcile all prior reimbursed claims under the provisional rate with the final approved rate. The MCTC will include any underpayments on the next billing to the Department. Interest may not be claimed on the underpayments.

Finding 1

We reviewed the MCTC's procurement of two vendor contracts which involved a Request for Proposal process. We found that the MCTC did not maintain complete procurement files with all relevant information related to the advertising, review, and award of the contracts. In addition, the scope of one of the two contracts appears to be related to unallowable activities associated with the passage of a new local tax measure.

As a result, all direct and indirect cost billed to federal and/or State funds related to these procurements/contracts are unallowable for reimbursement of federal and State funding.

49 CFR Part 18.36 (b) (9) and (12) states, in part, that grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, the basis for the contract price and protest procedures to handle and resolve disputes relating to their procurements and shall in all instances disclose information regarding the protest to the awarding agency.

In addition, 2 CFR Part 225, Appendix B, item 17(a), states in part, that costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used. Similarly, item 39, states that the costs of selling and marketing any products or services of the governmental unit are unallowable unless allowed under item 1, of this appendix as allowable advertising and public relations costs or under item 33, of this appendix as allowable proposal costs.

Recommendation

We recommend the MCTC immediately implement procurement policies and procedures that are in compliance with 49 CFR Part 18.36. We also recommend, that, in the future, the MCTC not use federal funding to pay for unallowable activities. In addition, we recommend that the MCTC determine the amount of all direct and indirect costs billed to federal and/or state funds, as a result of the procurements/contracts and reimburse the Department for these costs.

MCTC's Response:

In general, MCTC disagreed with the finding and recommendation. See Attachment II for detailed response.

Analysis of the Response:

The MCTC's response did not adequately address our finding and recommendation. As such, our finding and recommendation remain as written.

Finding 2

During our testing of FY 2009 and FY 2007 project labor costs billed to the Department, we found that the MCTC allocated fringe costs to the different work elements (WE) in the OWP, for the respective FY, based on the number of hours budgeted to each WE in the OWP. However, at the end of a year, budgeted hours may differ entirely from actual hours worked by WE, therefore, we believe that actual hours is a more reasonable basis to allocate fringe costs. We determined the costs allocated to each WE based on actual hours instead of budget hours resulted in variances by WE of as much as \$1,015, for direct and indirect labor costs for FY 2007. After discussion with the MCTC, we found that this same methodology of allocating fringe costs to the WEs was used in the FY 2006 and FY 2008 billings.

2 CFR Part 225, Appendix A, Section C, (1) (a), (b), and (j) states in part, to be allowable, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and costs must be adequately documented. Also, item C, (3) states that to be allowable, a cost must be allocable to a particular cost objective in accordance with relative benefits received.

Recommendation:

We recommend the MCTC use actual hours as the basis to allocate fringe costs to the WEs.

MCTC's Response:

In general, the MCTC agreed with the finding and recommendation. See Attachment II for details.

Analysis of the Response:

Upon the release of our draft audit report, the MCTC submitted to our office, revised FY 2006, FY 2007, and FY 2008 cost schedules, which used actual hours as the basis to allocate fringe hours to the WEs. The MCTC stated that it would also recalculate the labor costs for FY 2009, using the same methodology, at year end. As such, the MCTC has adequately addressed this part of our recommendation. However, because the MCTC is still working with DOTP staff concerning what actions it should take regarding the repayment or rebilling of costs for FY 2006, FY 2007, and FY 2008, our finding and recommendation remain as written.

Finding 3

As a result of our testing of direct and indirect costs billed to the Department, we found the MCTC continued to have an inadequate financial management system and system of contract administration. We identified the following issues during our current audit:

Direct Costs Testing

1. MCTC billed for unallowable activities i.e. the marketing/public education of "Measure A" and expenditure plan and the passage of the tax measure "Measure T" during the November 2006 elections.
2. MCTC under/overpaid two contractors for labor costs that were billed at lower/higher rates than the rates approved in the contracts. In addition, MCTC paid for less skilled job classifications at higher job classification rates and paid for job classifications not approved by the contracts.
3. The contract payment terms in one contract stated that MCTC would pay an amount not to exceed \$40,000, while the associated "Exhibit A" in the same contract stated that the contract cost was \$31,000, for each of the three years, for a total of \$93,000.
4. MCTC could not provide invoices for 3 out of 26 payments reviewed.
5. MCTC did not approve 4 out of 26 invoices reviewed.
6. MCTC was double billed for \$517 in printing costs on one contractor's invoice.
7. MCTC billed the Department unallowable costs associated with lobbying - i.e. CALCOG.

The lack of an adequate financial management system and system of contract administration increases the risk of noncompliance with federal and State requirements.

Indirect Cost Testing

1. MCTC included unallowable cost in the indirect cost pool, such as direct travel costs and staff costs to attend a retirement luncheon.
2. MCTC did not approve 2 out of 24 invoices reviewed. One invoice showed the payee and the approver as the same individual.

Including unallowable expenses in the indirect cost pool improperly inflates the indirect cost rate.

49 CFR Part 18.20 (b)(3) states, in part, that grantees and subgrantees will maintain a contract administration which ensures that contractors perform in accordance to the terms, conditions, and specifications in their contracts or purchase orders. Also, 2 CFR Part 225, Appendix A, Section C (1)(e) and (j) state, in part, that to be allowable, a cost must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit and also be adequately documented. Additionally, Section E (1) defines a direct cost as a cost that can be identified specifically with a particular final cost objective. Lastly, Appendix B, item 14, states that costs of

entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs as meals, are unallowable.

Recommendation:

We recommend that the MCTC strengthen its system of internal controls to ensure that they provide for an adequate financial management system and system of contract administration. In addition, we recommend that the MCTC ensure that, in the future, all costs meet the allowability criteria established by the 2 CFR Part 225.

MCTC's Response:

In general the MCTC agreed with the finding and recommendation. See Attachment II (Finding 4) for details.

Analysis of the Response:

While the MCTC may have taken measures to strengthen its system of internal controls, our finding and recommendation will remain. We will verify, through a future audit, that the MCTC has successfully implemented its stated corrective actions.

Finding 4- Unresolved Prior Findings

While the MCTC has made efforts to address the issues identified in the prior (P1190-0645) audit report, we noted the following deficiencies remained during the current audit:

1. The MCTC does not have written policies and procedures related to procurement and financial management.
2. Due to the timing of our audit and the release of the prior audit report (P1190-0645), we were unable to determine if the MCTC has implemented internal controls adequate to ensure adherence to travel policies as written in the MCTC Employee hand book, and also ensure the proper approvals for travel and other expenditures.
3. Work Element 904- Valley-wide Coordination, included in the FY 2009 OWP, still includes the task 904.3- Attend CALCOG Meetings. These activities benefit more than one program/project of the MCTC and should be treated as indirect costs.
4. The MCTC revised the funding sources that support WE 901 to include only local funding. However, no repayment of the previously billed costs has been made by the MCTC and we are awaiting a formal notice from FHWA on the allowability of using FHWA Planning funds to administer local transportation funds and/or State Transit Assistance funds.

Recommendation

We recommend that the MCTC continue to implement appropriate corrective action to ensure that all prior findings are completely resolved.

MCTC's Response:

In general the MCTC agreed with the finding and recommendation. See Attachment II (Finding 3 and 5) for details.

Analysis of the Response:

Our finding and recommendation remain as written.

This report is intended solely for the information of the MCTC, Department Management, the California Transportation Commission, and the FHWA. However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 6, the Department's Division of Accounting, and the FHWA. If you have any questions, please contact Cliff Vose, Audit Manager, at (916) 323-7917 or Elena Guerrero, Auditor, at (916) 323-7954.

MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation
- Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local Assistance
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- Steve Curti, Senior Transportation Planner, District 6
- James Perrault, Local Assistance Engineer, District 6
- P1591-0075

**Metropolitan Planning Organization (MPO)
Madera County Transportation Commission
Indirect Cost Plan**

Madera County Transportation Commission
2001 Howard Road, Suite 201
Madera, California 93637

January 29, 2009

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	77.51%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiations at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowance.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2009 Budgeted Indirect Costs	\$ 299,927	<see ICAP detail>
Carry Forward from FY 2007	<u>10,422</u>	<see carryforward calculation>
Estimated FY 2009 Indirect Costs	\$ 310,349	
FY 2009 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 400,422	<see ICAP detail>
FY 2009 Indirect Cost Rate	77.51%	

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Madera County Transportation Commission

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Patricia Taylor

Name of Official: Troy McNeil

Title: Executive Director

Title: Fiscal Supervisor

Date of Execution: January 29, 2009

Telephone No.: (559) 675-0721 extension 13

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature RV

Signature /

Reviewed and Approved by:

Reviewed and Approved by:

Clifford R Vese
Name of Audit Manager

Elena Guerrero
Name of Auditor

Title: Senior Management Auditor

Title: Auditor

Date: March 4, 2010

Date: March 4, 2010

Phone Number: (916) 323-7917

Phone Number: (916) 323-7954



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August 25, 2009

MaryAnn Campbell-Smith, Chief
Caltrans Office of Audits and Investigations
Department of Transportation
P.O. Box 942874
Sacramento, California 94274

Subject: Draft Audit Findings – MCTC Response

Dear Ms. Campbell-Smith:

This letter is written in response to Caltrans Office of Audits and Investigations Draft Audit Findings email sent to the Madera County Transportation Commission (MCTC) staff on July 6, 2009. The following are MCTC's summary responses to the findings and recommendations. Appendix A contains the draft findings with MCTC's response to each finding.

Finding 1

The MCTC considers the activities associated with the VRPA Technologies Inc. and TPG contracts to be eligible work activities that were included in the Overall Work Program, approved by Caltrans, FHWA and FTA. The MCTC agrees that there is a need to develop and implement improved procurement policies and procedures that will more clearly identify the tasks and activities associated to the individual contracts.

Finding 2

The MCTC currently uses actual hours as the basis to allocate fringe hours to the Work Elements. MCTC staff is working with Caltrans Local planning staff concerning FY 2007 costs.

Finding 3

This was a prior audit finding and the MCTC agreed to program funding and staff hours in the 2009-10 Overall Work Program to develop a Policies and Procedures Manual. Originally, MCTC budgeted funds to retain a firm to assist in developing this document; however, after careful consideration it was determined that MCTC staff will develop the manual in-house and it is scheduled to be completed in FY 2009-10.

Finding 4

The MCTC has taken many measures to strengthen its system of internal controls to ensure that the MCTC provide for an adequate financial management system and system of contract administration.

Finding 5

The MCTC will continue to implement appropriate corrective action to ensure that all prior findings are completely resolved. It should be noted that corrective action does take time and that the actions will be recognized in the 2009-10 and 2010-11 ICAP.

Conclusion and Request:

The MCTC appreciates the opportunity to respond to the findings. The MCTC agrees and understands it is appropriate to improve efficiencies and accuracies in our financial management system and has taken corrective action as necessary. As stated previously, changes to our management system and ability to maintain an adequate financial management system has been addressed. The MCTC can assure State Audits that its recommendations are being implemented immediately and corrective action has taken place.

In addition, the MCTC staff has submitted quarterly reports for FY 2008-09 based on an approved provisional rate for indirect costs and would like to submit its final billing recognizing the final indirect cost rate. MCTC is requesting an approved final indirect cost rate for FY 2008-09 in order to submit its final billing for FY 2008-09. Please advise accordingly.

If you have any questions or require further documentation, please contact Troy McNeil at troy@maderactc.org or (559) 675-0721 extension 12 or me at patricia@maderactc.org or (559) 675-0721 extension 13. We are also willing to schedule a meeting to meet face-to-face if needed.

Sincerely,

Patricia Taylor, Executive Director
Madera County Transportation Commission

cc: Ken Okereke, Associate Transportation Planner, District 06
Steve Curti, Chief, Transportation Planning, District 06

APPENDIX A

Draft Audit Findings

Finding 1

We reviewed the MCTC's procurement of two vendor contracts, VRPA Technologies Incorporated (VRPA) and TPG Consulting Incorporated (TPG), which involved a Request for Proposal process, and found that the MCTC did not maintain procurement files with all relevant information related to the advertising, review and award of the contracts. In addition, the scope of the VRPA contract appears to be entirely related to unallowable activities related to the passage of a new local tax measure.

As the MCTC did not adequately maintain records to sufficiently detail the significant history of the VRPA and TPG contracts, all direct and indirect cost billed to federal and/or state funds as a result of these procurements/contracts are unallowable for reimbursement of federal and state funding.

49 CFR Part 18.36 (b) (9) and (12) states, in part, that grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, the basis for the contract price and protest procedures to handle and resolve disputes relating to their procurements and shall in all instances disclose information regarding the protest to the awarding agency.

In addition, 2 CFR Part 225, Appendix B, item 17(a), states in part, that costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used. Similarly, item 39, states that the costs of selling and marketing any products or services of the governmental unit are unallowable (unless allowed under item 1, of this appendix as allowable advertising and public relations costs or under item 33, of this appendix as allowable proposal costs).

Recommendation

We recommend the MCTC immediately implement procurement policies and procedures that are in compliance with 49 CFR Part 18.36. In addition, we recommend that the MCTC determine the amount of all direct and indirect costs billed to federal and/or state funds, as a result of the procurements/contracts with VRPA and TPG, and reimburse the Department and FHWA for these costs.

MCTC Response

The MCTC considers the activities associated with the VRPA and TPG contracts to be eligible work activities that were included in the Overall Work Program, approved by Caltrans, FHWA and FTA. The MCTC agrees that there is a need to develop and implement improved procurement policies and procedures that will more clearly identify the tasks and activities associated to the individual contracts.

(A)

In FY 2005/06 through 2006/07, MCTC contracted with VRPA Technologies, Inc. to conduct a transportation needs assessment for Madera County and to develop and market a regional

transportation expenditure plan for incorporation into the 2007 Regional Transportation Plan (RTP) update. The needs assessment was developed from the 2004 RTP Project Prioritization Study, the Madera County Traffic Model, and extensive stakeholder and public interviews, public opinion surveys, and steering committee actions. Once identified, the transportation projects were prioritized utilizing RTP performance measures. A 20-year Transportation Investment Plan was developed to include all available funding sources for the prioritized capital projects identified in the transportation needs assessment. The available funds - federal, state and local were determined to be insufficient, so the Investment Plan was developed to propose the capital projects be funded through combination of STIP; Local Impact Fees; and ½ cent Sales Tax for Transportation. An Environmental Impact Report (EIR) was developed for the 2007 RTP Update including the Investment Plan projects.

MCTC in coordination with VRPA Technologies conducted an extensive Public Awareness program for the Investment Plan and 2007 RTP update that included: a speaker's bureau; visited local organizations; media advertising (Television, radio and newspaper); materials (brochures; pamphlets; maps). The public participation associated with the development and marketing of the Transportation Needs Assessment/Expenditure Plan played a significant role in defining not only the goals, policies and objectives of the Policy Elements of the RTP, but also the identification and prioritization of the projects (Action Element) for inclusion in the RTP and the establishment of a responsible financially constrained Financial Element that maximizes the utilization of federal, state and local fund sources.

(B)

In FY 2003/04, MCTC released a RFP for consultant services for the Traffic Monitoring Program. The Traffic Monitoring Program is a 3-year program consisting of 225 traffic count locations. The count locations correspond to screenlines that are used to validate the MCTC Traffic Model which is utilized for RTP performance measures and generating air quality conformity data for the RTP and FTIP. Only one bid was received under budget from a qualified firm, TPG Consulting, Inc., whose office is located outside the market area approximately 70 miles away. The nature of the program is such that, the consultant must be present in Madera County to conduct the traffic counts. Upon the conclusion of the first TPG contract, it was determined that the service provided was more than adequate for the proposed cost.

In FY 2006/07, MCTC solicited a proposal from TPG Consulting, Inc. for the Traffic Monitoring Program and received approval from the MCTC Policy Board at its regularly noticed meeting to proceed with an extension of the contract. It was determined that there were no qualified firms in the market area at the time and that the services provided to date from TPG Consulting, Inc. more than warranted an extension of the contract.

Finding 2

During our testing of FY 2009 and FY 2007 project labor costs billed to the Department, we found that the MCTC allocated fringe hours to the different work elements (WE) in the Overall Work Program (OWP), for the respective fiscal year, based on the number of hours budgeted to each WE in the OWP. However, at the end of a year, budgeted hours may differ entirely from actual hours and as such, actual hours is a more reasonable basis to use for the allocation of fringe hours. We determined the materiality of costs, to each WE, by using actual hours instead of budget hours to allocate fringe hours, and found that for FY 2007 costs, the range of costs varied from both under/over charging to WEs from \$1.79 to \$1,015.05, for both direct and indirect labor

costs.

2 CFR Part 225, Appendix A, Section C, (1) (a), (b), and (j) states in part, to be allowable, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards, and costs must be adequately documented. Also, item C, (3) states that to be allowable, a cost must be allocable to a particular cost objective in accordance with relative benefits received.

Recommendation:

We discussed this issue with the MCTC and recommended that actual hours be used as the basis to allocate fringe hours to the WEs. We also informed the MCTC that we would forward the results of our analysis described above, to Local Planning Programs staff for their determination of what actions the MCTC should take regarding the FY 2007 costs.

MCTC Response

The MCTC currently uses actual hours as the basis to allocate fringe hours to the Work Elements. MCTC staff is working with Caltrans Local planning staff concerning FY 2007 costs.

Finding 3

The MCTC does not have written policies and procedures related to accounting, procurement, and automated accounting.

The lack of written policies and procedures increases the risk of non compliance with federal and state requirements.

49 CFR Part 18.20 (b)(3) states, in part, that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Additionally, Part 18.36 (b)(1), states, in part, that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Recommendation

We recommend the MCTC immediately establish written manuals to include policies and procedures related to:

1. project cost accounting system
2. procurement
3. payroll
4. travel and expense claims
5. overhead and other indirect costs
6. journal entries/general ledger
7. accounts receivable and payable

MCTC Response

This was a prior audit finding and the MCTC agreed to program funding and staff hours in the 2009-10 Overall Work Program to develop a Policies and Procedures Manual. Originally, MCTC budgeted funds to retain a firm to assist in developing this document; however, after careful consideration it was determined that MCTC staff will develop the manual in-house and it is scheduled to be completed in FY 2009-10.

Finding 4

As a result of our testing of direct and indirect costs, we found the MCTC does not have an adequate financial management system and system of contract administration. We identified the following issues:

Direct Costs Testing

1. MCTC overpaid VRPA and TPG for labor costs that were billed at higher rates than the rates approved in the contract.
2. MCTC is missing invoices for several payments.
3. MCTC was double billed for printing costs on VRPA invoice 06-283 for \$517.20.
4. MCTC billed for postage costs for mailings that appear to be for the passage of a tax measure.
5. MCTC billed for unallowable activities i.e. the marketing / public education of Measure A and expenditure plan and the passage of the tax measure "Measure T" during the November 2006 elections.
6. MCTC billed unallowable costs associated with lobbying - i.e. CALCOG.
7. Several MCTC invoices were missing the approval for payment signature/initials on the vendor invoices.
8. MCTC may have paid for less skilled consultants and the high skilled rate.
9. MCTC did not have support for costs billed.
10. TPG contract payment terms state that MCTC will pay an amount not to exceed \$40,000, while "Exhibit A" states that the contract cost is \$31,000, for each of the three years.

The lack of an adequate financial management system and system of contract administration increases the risk of non compliance with contract terms, conditions, and specification.

Indirect Costs Testing

1. MCTC included several direct travel costs, in the pool of indirect costs.
2. Two transactions were not properly approved for payment as one lacked an approval signature and the other one, identified the payee and the approver as the same individual.
3. MCTC included unallowed entertainment costs in the pool of indirect costs for MCTC staff to attend a retirement luncheon for a partner agency employee.

Including unallowed expenses in the indirect cost pool may improperly inflate the indirect cost rate.

49 CFR Part 18.20 (b)(3) states, in part, that grantees and subgrantees will maintain a contract administration which ensures that contractors perform in accordance to the terms, conditions, and specifications in their contracts or purchase orders. Also, 2 CFR Part 225, Appendix A, Section C (1)(e) and (j) state, in part, that to be allowable, a cost must be consistent with policies, regulations, and procedures that apply uniformly to both Federal wards and other activities of the governmental unit and also be adequately documented. Additionally, Section E (1) defines a direct cost as a cost that can be identified specifically with a particular final cost objective. Lastly, Appendix B, item 14, states that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs as meals, are unallowable.

Recommendation:

In order to ensure that contractors perform in accordance to the terms, conditions, and specifications in their contracts or purchase orders, we recommend that the MCTC strengthen its

system of internal controls to ensure that they provide for an adequate financial management system and system of contract administration. In addition, although we did not request the MCTC remove the unallowed costs identified above, from the pool of indirect costs, we however recommend that the MCTC ensure that, in the future, costs that do not meet the allowability criteria established by the 2 CFR Part 225 be excluded from the indirect cost pool.

MCTC Response

The MCTC has taken many measures to strengthen its system of internal controls to ensure that the MCTC provide for an adequate financial management system and system of contract administration. The main corrective actions taken by the MCTC have primarily focused upon this issue.

Finding 5 – Unresolved Prior Findings

While the MCTC has made significant efforts to address the issues identified in the P1190-0645 audit report, we still noted the following deficiencies during the fiscal year 2008-09 audit:

1. The MCTC should prepare revised cost schedules for FY 2006 and FY 2008. Our testing consisted of costs included in the revised cost schedule for FY 2007 only, as these costs affect the carryforward costs used to determine the FY 2009 indirect cost rate.
2. Work Element 904- Valley-wide Coordination, included in the FY 2009 OWP, still includes the task 904.3-Attend CALCOG Meetings. These activities benefit more than one program/project of the MCTC and should be treated as indirect costs.
3. Due to the timing of our audit and the release of the audit report P1190-0645, we are unable to determine if the MCTC has implemented internal controls adequate to ensure adherence to travel policies as written in the MCTC Employee hand book, and also ensure the proper approvals for travel and other expenditures.
4. The MCTC revised the funding sources that support WE 901 to include only local funding. However, no repayment of the previously billed costs has been made by the MCTC and we are awaiting a formal notice from FHWA which may allow the MCTC's use of Planning funds for local planning projects.

49 CFR 18.12 (a) states, in part, that a grantee or subgrantee may be considered "high risk" if an awarding agency determines that a grantee or subgrantee: (1) Has a history of unsatisfactory performance, or (2) Has a management system which does not meet the management standards set forth in this part, or (3) Is otherwise no responsible

The MCTC's failure to implement proper corrective actions to correct audit exceptions increases the risk of continued designation as "high risk", which would result in restrictions imposed on the MCTC by the Department.

Recommendation

We recommend that the MCTC continue to implement appropriate corrective action to ensure that all prior findings are completely resolved.

MCTC Response

The MCTC will continue to implement appropriate corrective action to ensure that all prior findings are completely resolved. It should be noted that corrective action does take time and that the actions will be recognized in the 2009-10 and 2010-11 ICAP.